

Message Text

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PAGE 01 LA PAZ 06301 01 OF 02 102110Z
ACTION ARA-14

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LIMITED OFFICIAL USE SECTION 1 OF 2 LA PAZ 6301

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1. MAJOR ECONOMIC PROBLEMS. THE BOLIVIAN ECONOMY, NOW ENTERING ITS SIXTH CONSECUTIVE YEAR OF ECONOMIC GROWTH, IS RELATIVELY FREE FROM IMMEDIATE MAJOR PROBLEMS. THERE ARE, HOWEVER, SEVERAL STRUCTURAL AND SYSTEMIC FACTORS WHICH COULD CAUSE ECONOMIC DIFFICULTIES IN THE FUTURE.

A. DEPENDENCE ON THE EXTERNAL SECTOR. IN 1976, BOLIVIA'S EXPORTS OF TIN, OTHER MINERALS, HYDROCARBONS AND AGRICULTURAL CROPS ACCOUNTED FOR 22 PERCENT OF TOTAL GDP. ANY MAJOR DOWNTURN IN WORLD PRICES FOR THESE COMMODITIES--ESPECIALLY TIN--COULD HAVE NEGATIVE REPERCUSSIONS ON THE DOMESTIC ECONOMY, INCLUDING GOVERNMENT REVENUES, A LARGE PERCENTAGE OF WHICH DERIVE FROM EXPORT TAXES.

B. FALLING PETROLEUM OUTPUT. PETROLEUM EXPORTS FELL BY 9.7 PERCENT, FROM 8.85 MILLION BARRELS IN 1975 TO 8.07 MILLION BARRELS IN 1976, AND IS EXPECTED TO FALL ANOTHER 19 PERCENT TO

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PAGE 02 LA PAZ 06301 01 OF 02 102110Z

65 MILLION BARRELS IN 1977, DUE TO RISING DOMESTIC CONSUMPTION AND DECLINING DOMESTIC PRODUCTION. PROVED RESERVES ARE NOW ESTIMATED AT 176 MILLION BARRELS. GIVEN PETROLEUM'S IMPORTANCE AS BOTH A FOREIGN EXCHANGE AND DOMESTIC REVENUE EARNER AND AS AN ENERGY SOURCE FOR INDUSTRIAL DEVELOPMENT, THE RESULTS OF ONGOING EXPLORATION FOR NEW OIL DEPOSITS WILL BE AN IMPORTANT FACTOR IN BOLIVIA'S FUTURE ECONOMIC OUTLOOK.

C. GROWING EXTERNAL DEBT AND ITS CHANGING STRUCTURE. AN INCREASING PORTION OF BOLIVIA'S EXTERNAL FINANCING IS BEING CONTRACTED ON COMMERCIAL TERMS, WHICH IS WORSENING ITS OVER-ALL DEBT STRUCTURE. THE COUNTRY FACES A POTENTIAL DEBT-SERVICE PROBLEM BEGINNING IN 1978, IF EXPORTS DO NOT EXPAND SUFFICIENTLY TO MEET THE RISING COSTS OF FINANCING THE DEBT. REFTEL C CONTAINS AN ANALYSIS OF BOLIVIA'S POTENTIAL DEBT PROBLEM. SEE ALSO PARA 2.

D. DUAL ECONOMY. DESPITE ITS GOOD PERFORMANCE IN RECENT YEARS, BOLIVIA'S ECONOMY REMAINS HIGHLY DUALISTIC. MOST GROWTH HAS OCCURRED IN THE MODERN SECTORS, WHILE 60-65 PERCENT OF THE POPULATION LIVES IN RURAL AREAS, OUTSIDE THE MONEY ECONOMY, AT SUBSISTENCE LEVELS WITH ANNUAL INCOMES EQUIVALENT TO -\$60-130 PER CAPITA. SOCIAL AND ECONOMIC INDICATORS FOR THIS SECTOR ARE AMONG THE LOWEST IN THE HEMISPHERE, AND ITS RELATIVE STAGNATION REPRESENTS A DRAG ON BOLIVIA'S DEVELOPMENT.

E. DEFENSE SPENDING. BOLIVIA'S SECURITY INTERESTS ARE AFFECTED BY THE CHILE/PERU ARMS RACE AND THE GOB FACES STRONG DEMAND FROM THE MILITARY, PRESIDENT BANZER'S PRIMARY BASE OF POWER, FOR SUBSTANTIALLY INCREASED ARMS EXPENDITURES. WHILE BANZER HAS THUS FAR RESISTED SUCH PRESSURES, HE MAY BE FORCED TO DIVERT A PORTION OF THE LIMITED RESOURCES LIMITED OFFICIAL USE

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PAGE 03 LA PAZ 06301 01 OF 02 102110Z

PRESENTLY AVAILABLE TO BOLIVIA FOR DEVELOPMENT PURPOSES. WHILE INCREASED ARMS SPENDING WOULD PRIMARILY BE FINANCED BY CREDIT, THIS WOULD ADD SIGNIFICANTLY TO THE COUNTRY'S FUTURE DEBT-SERVICING PROBLEMS.

F. PUBLIC SECTOR DOMINANCE AND ADMINISTRATIVE INEFFICIENCY. APPROXIMATELY 60 PERCENT OF BOLIVIA'S ECONOMY IS BASED IN THE PUBLIC SECTOR, PARTICULARLY IN FOUR MAJOR PUBLIC CORPORATIONS: COMIBOL (THE STATE OWNED MINING COMPANY), YPFB (THE GOVERNMENT PETROLEUM MONOPOLY), ENAF, (THE STATE SMELTING FIRM) AND CBF (THE BOLIVIAN DEVELOPMENT CORPORATION). THESE FOUR SEMI-AUTONOMOUS ENTITIES ACCOUNTED FOR 55 PERCENT OF PUBLIC INVESTMENT IN 1976. WITH THE EXCEPTION OF YPFB, THEY ARE POORLY MANAGED, INEFFICIENT, AND PRONE TO RUN DEFICITS, EVEN WHEN PRICES FOR THEIR PRODUCTS ARE HIGH. AS SUCH THEY TAX THE GOB'S LIMITED ADMINISTRATIVE AND FINANCIAL RESOURCES. THE CENTRAL GOVERNMENT HAS BEEN ATTEMPTING TO BRING THESE DECENTRALIZED AGENCIES UNDER TIGHTER CONTROL, BUT SO FAR WITH ONLY MODEST SUCCESS.

2. OUTLOOK FOR THE NEXT TWELVE MONTHS. THE OUTLOOK FOR THE NEXT YEAR IS VERY GOOD. DEVELOPMENTS AFFECTING THE EXTERNAL

SECTOR HAVE BEEN HIGHLY FAVORABLE, WITH TIN PRICES AT RECORD HIGH LEVELS. EXPORTS ARE PROJECTED TO REACH \$650 MILLION IN 1977, UP 15 PERCENT OVER 1976 AND FOREIGN DEVELOPMENT FINANCING FROM BOTH CONCESSIONARY AND PRIVATE SOURCES CONTINUES TO BE READILY AVAILABLE. DISBURSEMENTS ON LONG-TERM CREDITS TO THE PUBLIC SECTOR ARE EXPECTED TO EXCEED \$400 MILLION IN 1977, AND NEW LOANS OF ABOUT THE SAME AMOUNT ARE TO BE SIGNED. THE GOB ANTICIPATES A BALANCE OF PAYMENTS SURPLUS OF \$60-65 MILLION FOR THE YEAR.

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PAGE 01 LA PAZ 06301 02 OF 02 102123Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 LA PAZ 6301

DOMESTICALLY, THE GOB PROJECTS REAL GDPGROWTH OF 6-7 PERCENT TO ABOUT \$3 BILLION IN 1977, WITH INFLATION OF LESS THAN 15 PERCENT. EXPANSIONARY SPENDING BY THE GOB AND AMPLE CAPITAL INFLOWS FROM ABROAD ASSURE AN ADEQUATE FINANCIAL BASIS FOR A CONTINUATION OF VIGOROUS DOMESTIC ECONOMIC ACTIVITY, AND KEY INDICATORS SUCH AS INDUSTRIAL AND ELECTRIC POWER CONSUMPTION, CEMENT AND GASOLINE SALES ARE COMMERCIAL BANK LOANS ARE LIKELY TO CONTINUE RISING. OF THE PROBLEMS LISTED IN PARA 1, THE ONE WHICH IS MOST LIKELY TO VISIBLY AFFECT BOLIVIA WITHIN THE NEXT TWELVE MONTHS IS THAT OF INCREASING DEBT-SERVICE COSTS. AS DISCUSSED IN REFTEL C, THE STRUCTURE OF BOLIVIA'S EXTERNAL DEBT IS SHIFTING MARKEDLY, AWAY FROM SOFT-TERM SOURCES TO PRIVATE FOREIGN CAPITAL MARKETS WHERE THE COST OF FUNDS IS CONSIDERABLY GREATER. DEBT-SERVICE PAYMENTS TOTALLED \$112 MILLION IN 1976, (20 PERCENT OF FOB EXPORT VALUES) AND ARE PROJECTED TO REACH \$146 MILLION (\$87 MILLION IN AMORTIZATIONS AND \$59 MILLION IN INTEREST) IN 1977. IF ANTICIPATED EXPORT LEVELS ARE ACHIEVED, THE DEBT-SERVICE RATION WILL BE ABOUT 22 PERCENT. IN 1978, HOWEVER, THE GOB MUST BEGIN AMORTIZING PRIVATE

BANK CONSORTIA LOANS CONTRACTED IN 1976 AND DEBT-SERVICE COSTS MAY THEN APPROACH \$200 MILLION. BOLIVIA'S CAPACITY TO CARRY THIS INCREASED DEBT SERVICE/BURDEN WILL DEPEND IN LIMITED OFFICIAL USE

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PAGE 02 LA PAZ 06301 02 OF 02 102123Z

PART ON TRENDS IN WORLD MARKETS FOR HER MAJOR EXPORTS AND ON THE GOB'S ABILITY TO DISBURSE THE FUNDS THESE COSTS REPRESENT IN A TIMELY MANNER AND DIRECT THEM TO INVESTMENTS LIKELY TO YIELD RELATIVELY QUICK RETURNS. EVEN MORE IMPORTANT WILL BE DEVELOPMENTS IN THE PETROLEUM SECTOR. DISCOVERIES MADE RECENTLY BY YPFB AND OCCIDENTAL ARE STILL BEING ASSESSED, BUT AT BEST THESE FINDS MIGHT BRING THE VOLUME OF PETROLEUM OUTPUT BACK TO 1974 LEVELS BY THE END OF 1978.

3. CRITICAL POINTS.

A. WORLD MINERALS PRICES. PRICES FOR TIN AND OTHER MINERALS REMAIN CRUCIAL TO BOLIVIA'S BALANCE OF PAYMENTS PERFORMANCE AND TO GOVERNMENT REVENUE LEVELS. THE GOB IS, THEREFORE, VERY SENSITIVE TO GSA TIN STOCKPILE SALES AND TO INTERNATIONAL TIN COUNCIL DECISIONS AFFECTING TIN PRICES, AS WELL AS TO USG COMMODITY POLICIES IN GENERAL.

B. FOREIGN AID LEVELS. IN 1976, ABOUT 60 PERCENT OF TOTAL PUBLIC SECTOR INVESTMENT WAS FINANCED BY FOREIGN CAPITAL A LARGE SHARE OF WHICH CAME FROM INTERNATIONAL LENDING AGENCIES AND BILATERAL DONORS. BOLIVIA'S HEAVY DEPENDENCE ON FOREIGN ASSISTANCE MAKES THE GOB HIGHLY SENSITIVE TO USG AID POLICIES RELATED TO BOTH BILATERAL PROGRAMS AND CONTRIBUTIONS TO MULTILATERAL LENDING INSTITUTIONS.

C. POLITICAL STABILITY. BOLIVIA'S RECENT ECONOMIC SUCCESS IS PREDICATED ON THE COUNTRY'S POLITICAL STABILITY. WHILE PRESIDENT BANZER APPEARS TO BE IN FIRM CONTROL, THE UNDERLYING CONDITIONS FOR A RESURGENCE OF INSTABILITY PERSIST, AND BANZER'S PROMISE TO RETURN THE NATION TO DEMOCRACY IN 1980 WILL COMPLICATE THE GOB'S EFFORTS TO MAINTAIN POLITICAL TRANQUILITY.

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PAGE 03 LA PAZ 06301 02 OF 02 102123Z

D. CLIMATIC AND TOPOGRAPHICAL FACTORS. BOLIVIA'S EXTREMELY RUGGED TERRAIN AND HIGHLY VARIABLE CLIMATE PRESENT ADDITIONAL COSTS TO FACTORS SUCH AS TRANSPORTATION AND EXTRACTION, AND FREQUENTLY CAUSE CROP LOSSES OR DELAYS IN DELIVERIES. IN ADDITION, CLIMATIC EXTREMES SUCH AS FLOODS AND DROUGHTS OFTEN OCCUR IN BOLIVIA, CREATING DISASTER SITUATIONS WHICH

NECESSITATE RELIEF ASSISTANCE FROM ABROAD.

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